



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
CIVIL WORKS
108 ARMY PENTAGON
WASHINGTON DC 20310-0108

AUG 20 2007

Honorable Richard Cheney
President of the Senate
U.S. Capitol Building, Room S-212
United States Senate
Washington, D.C. 20510-0012

Dear Mr. President:

In response to a September 24, 1997 resolution by the Committee on Transportation and Infrastructure of the U.S. House of Representatives, the U.S. Army Corps of Engineers prepared a report on a project for navigation and dredged material disposal entitled the Eastward Expansion of the Craney Island Dredged Material Management Facility, Norfolk Harbor and Channels, Hampton Roads, Virginia. The proposal is described in the report of the Chief of Engineers dated October 24, 2006, which includes other pertinent reports and comments. The views of the Commonwealth of Virginia, the Virginia Department of Transportation, Environmental Protection Agency, the Department of Commerce, the Department of the Interior, and the United States Coast Guard are set forth in the enclosed report. The Secretary of the Army supports the authorization and plans to implement the project through the normal budget process at the appropriate time, considering national priorities and the availability of funds.

The recommended plan consists of expanding the existing Craney Island Dredged Material Management Area (CIDMMA) to provide a 580-acre eastward expansion to an elevation of +18 feet mean lower low water (MLLW) to provide additional dredged material disposal capacity and a suitable platform to facilitate the Virginia Port Authority (VPA) to construct a container handling terminal. Perimeter dikes for the recommended plan would be constructed around the area of the new cell to contain dredged material. The western limit of the proposed cell would tie into the existing east dike of the CIDMMA. In addition, the plan includes construction of an access channel to a depth of 50 feet MLLW to serve the VPA's container port. In preparation for future port development, the 580-acre area would be divided by a dike into two separate dredged material receiving areas, consisting of 220 and 360 acres. The 220-acre area would be filled with dredged material first, and would then be made available to the VPA to facilitate port expansion. The 360-acre area would receive dredged material after the 220-acre area has been filled to capacity. Once the 360-acre area has been filled, it would also be turned over to the VPA. The entire eastward expansion provides an additional three years of dredged material capacity along with enough landside capacity to yield over \$339,000,000 in transportation cost savings for container traffic. Re-routing the cargo to other ports would have incurred higher unit costs per twenty-foot equivalent unit (TEU). The port expansion will increase landside



storage capacity at the port and will allow the maximum cargo to enter and be moved through the Hampton roads area at the lowest unit cost per TEU. Net national transportation benefits will be captured as a result of the port expansion because the combination of the channel depth and the landside storage capacity will result in lower unit TEU handling costs. The initial phase of the port terminal on the 220-acre area is projected to be operational by 2017.

An exception to the requirement to recommend the national economic development (NED) plan was granted to the Corps in my May 16, 2006 letter to the Director of Civil Works. The eastward expansion of the CIDMMA is the Locally Preferred Plan (LPP). The NED plan would include strengthening of the western dike of the existing CIDMMA in 2028 to allow raising the perimeter dikes and filling the existing facility to a greater elevation. The non-Federal partner, the VPA, has exercised an active role throughout the plan formulation process and has collaborated in the detailed evaluation of the two alternative plans. The VPA prefers the eastward expansion as a stand-alone project LPP without strengthening the western dikes based on the uncertainty associated with making a decision today about an action that would not be necessitated until 2028. It is important to note that western dike strengthening is not precluded by implementation of the LPP and would be a Federal responsibility, since vertical or horizontal expansion of Craney Island is a consideration of its continued operation as a toll disposal facility. The main differences between the two plans are the project cost and the benefits related to the life/capacity of the CIDMMA. The first costs of construction for the plans are the same; however, long-term costs would be less for the LPP without the expense of the western dike strengthening in 2028. The LPP provides 67 million cubic yards (14 years) less disposal capacity than the NED plan while providing more than 99 percent of the net benefits. Both plans provide the same benefits from transportation cost savings and reduced maintenance dredging, with the difference resulting from the disposal benefits. The LPP is advanced as the recommended plan.

Construction of the recommended plan would require the unavoidable filling of 580 acres of estuarine open water and associated benthic habitats in the Elizabeth River. The recommended plan would mitigate for these impacts including development of approximately 56 acres of wetland habitats, 20 acres of oyster reef habitat, and the remediation of approximately 67 acres of contaminated sediments in the river bottom. The mitigation plan would have a beneficial impact on over 410 acres of the Elizabeth River. The estimated cost of the of the mitigation plan is about \$50,200,000 and would be cost shared in the same proportion as the recommended plan which is about 4 percent Federal and 96 percent non-Federal.

The project benefits are all allocated primarily to landside transportation cost savings from development of the new port facilities. Additional benefits occur from providing additional dredged material disposal capacity at the CIDMMA, and from navigation cost savings from channel development. Based on October 2006 price levels, the total first cost for construction of the recommended plan is \$712,103,000. The U.S. Army Corps of Engineers (USACE) Civil Works program provides for Federal

interest in general navigation features (GNF) associated with navigation improvements. Excluded are interests in the development of port lands, facilities, and infrastructure.

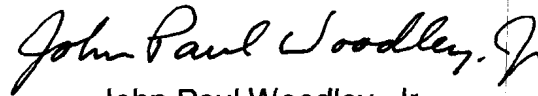
Under existing law and policy, the USACE cost-sharing responsibility for the recommended eastward expansion plan is limited to the present value of the least-cost long-term dredged material placement method, identified as a west dike strengthening on the existing CIDMMA without any lateral expansion. The Federal interest and corresponding cost-sharing will be limited to that amount which would ordinarily be applied to an expansion of CIDMMA for dredged material purposes only. Additionally, Federal participation in the access channel, as a GNF, is based on depth in accordance with provisions of the Water Resources Development Act of 1986 (WRDA 1986), as amended. WRDA 1986 also requires an additional 10 percent contribution by the non-Federal sponsor over a period not to exceed 30 years. Accordingly, the estimated Federal cost for construction of the eastward expansion and access channel, after the 10 percent repayment, is \$13,793,000 and \$14,722,000, respectively, for a total estimated Federal share of \$28,515,000. The estimated non-Federal share is \$683,588,000 or 96 percent. This cost estimate does not include an additional estimated cost of \$1.2 billion for port facilities that the sponsor will provide. Annual operation and maintenance (O&M) costs for the recommended plan are estimated at \$218,000 annually. The O&M costs consist entirely of maintenance dredging of the access channel, which will be cost shared between Federal and non-Federal interests. The Federal Government will be responsible for 100 percent of the costs for maintaining the channel to a depth of 45-feet. The Federal and non-Federal interests will cost share equally, any additional costs beyond the 45-foot increment and up to the 50-foot increment.

Based on October 2006 prices and a Federal discount rate of 4.875 percent, the estimated average annual cost of the recommended plan is \$75,494,000, average annual benefits are \$341,348,000 and average annual net benefits are \$265,854,000. The project's benefit-to-cost ratio is 4.5 to 1.0. While the non-Federal sponsor is bearing 96 percent of the cost of the project, the Corps is the logical agent to undertake Federal authorization and construction responsibilities because of the use of navigation dredged material, the Federal interest in the channel component of the project, and Corps ownership of the current Craney Island Disposal facility. The plan also delays Federal investment in the western berm and results in Federal cost savings. Specific arrangements regarding the roles and responsibilities of the sponsor and the Corps would be developed during the Project Cooperation Agreement process.

The Office of Management and Budget advises that there is no objection to the submission of the report to Congress. A copy of its letter is enclosed. I am providing a copy of this transmittal and the OMB letter dated July 30, 2007, to the Senate

Subcommittees on Energy and Water, and Transportation and Infrastructure in accordance with the requirements of the Fiscal Year 2006 Energy and Water Development Appropriations Act (P.L. 109-103).

Very truly yours,

A handwritten signature in black ink that reads "John Paul Woodley, Jr." with a stylized flourish at the end.

John Paul Woodley, Jr.
Assistant Secretary of the Army
(Civil Works)

Enclosures



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
CIVIL WORKS
108 ARMY PENTAGON
WASHINGTON DC 20310-0108

AUG 20 2007

Honorable Nancy Pelosi
Speaker of the House
of Representatives
U.S. Capitol Building, Room H-232
Washington, D.C. 20515-0001

Dear Madam Speaker:

In response to a September 24, 1997 resolution by the Committee on Transportation and Infrastructure of the U.S. House of Representatives, the U.S. Army Corps of Engineers prepared a report on a project for navigation and dredged material disposal entitled the Eastward Expansion of the Craney Island Dredged Material Management Facility, Norfolk Harbor and Channels, Hampton Roads, Virginia. The proposal is described in the report of the Chief of Engineers dated October 24, 2006, which includes other pertinent reports and comments. The views of the Commonwealth of Virginia, the Virginia Department of Transportation, Environmental Protection Agency, the Department of Commerce, the Department of the Interior, and the United States Coast Guard are set forth in the enclosed report. The Secretary of the Army supports the authorization and plans to implement the project through the normal budget process at the appropriate time, considering national priorities and the availability of funds.

The recommended plan consists of expanding the existing Craney Island Dredged Material Management Area (CIDMMA) to provide a 580-acre eastward expansion to an elevation of +18 feet mean lower low water (MLLW) to provide additional dredged material disposal capacity and a suitable platform to facilitate the Virginia Port Authority (VPA) to construct a container handling terminal. Perimeter dikes for the recommended plan would be constructed around the area of the new cell to contain dredged material. The western limit of the proposed cell would tie into the existing east dike of the CIDMMA. In addition, the plan includes construction of an access channel to a depth of 50 feet MLLW to serve the VPA's container port. In preparation for future port development, the 580-acre area would be divided by a dike into two separate dredged material receiving areas, consisting of 220 and 360 acres. The 220-acre area would be filled with dredged material first, and would then be made available to the VPA to facilitate port expansion. The 360-acre area would receive dredged material after the 220-acre area has been filled to capacity. Once the 360-acre area has been filled, it would also be turned over to the VPA. The entire eastward expansion provides an additional three years of dredged material capacity along with enough landside capacity to yield over \$339,000,000 in transportation cost savings for container traffic. Re-routing the cargo to other ports would have incurred higher unit costs per twenty-foot equivalent unit (TEU). The port expansion will increase landside



storage capacity at the port and will allow the maximum cargo to enter and be moved through the Hampton roads area at the lowest unit cost per TEU. Net national transportation benefits will be captured as a result of the port expansion because the combination of the channel depth and the landside storage capacity will result in lower unit TEU handling costs. The initial phase of the port terminal on the 220-acre area is projected to be operational by 2017.

An exception to the requirement to recommend the national economic development (NED) plan was granted to the Corps in my May 16, 2006 letter to the Director of Civil Works. The eastward expansion of the CIDMMA is the Locally Preferred Plan (LPP). The NED plan would include strengthening of the western dike of the existing CIDMMA in 2028 to allow raising the perimeter dikes and filling the existing facility to a greater elevation. The non-Federal partner, the VPA, has exercised an active role throughout the plan formulation process and has collaborated in the detailed evaluation of the two alternative plans. The VPA prefers the eastward expansion as a stand-alone project LPP without strengthening the western dikes based on the uncertainty associated with making a decision today about an action that would not be necessitated until 2028. It is important to note that western dike strengthening is not precluded by implementation of the LPP and would be a Federal responsibility, since vertical or horizontal expansion of Craney Island is a consideration of its continued operation as a toll disposal facility. The main differences between the two plans are the project cost and the benefits related to the life/capacity of the CIDMMA. The first costs of construction for the plans are the same; however, long-term costs would be less for the LPP without the expense of the western dike strengthening in 2028. The LPP provides 67 million cubic yards (14 years) less disposal capacity than the NED plan while providing more than 99 percent of the net benefits. Both plans provide the same benefits from transportation cost savings and reduced maintenance dredging, with the difference resulting from the disposal benefits. The LPP is advanced as the recommended plan.

Construction of the recommended plan would require the unavoidable filling of 580 acres of estuarine open water and associated benthic habitats in the Elizabeth River. The recommended plan would mitigate for these impacts including development of approximately 56 acres of wetland habitats, 20 acres of oyster reef habitat, and the remediation of approximately 67 acres of contaminated sediments in the river bottom. The mitigation plan would have a beneficial impact on over 410 acres of the Elizabeth River. The estimated cost of the of the mitigation plan is about \$50,200,000 and would be cost shared in the same proportion as the recommended plan which is about 4 percent Federal and 96 percent non-Federal.

The project benefits are all allocated primarily to landside transportation cost savings from development of the new port facilities. Additional benefits occur from providing additional dredged material disposal capacity at the CIDMMA, and from navigation cost savings from channel development. Based on October 2006 price levels, the total first cost for construction of the recommended plan is \$712,103,000. The U.S. Army Corps of Engineers (USACE) Civil Works program provides for Federal

interest in general navigation features (GNF) associated with navigation improvements. Excluded are interests in the development of port lands, facilities, and infrastructure.

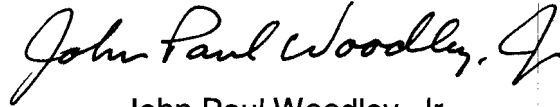
Under existing law and policy, the USACE cost-sharing responsibility for the recommended eastward expansion plan is limited to the present value of the least-cost long-term dredged material placement method, identified as a west dike strengthening on the existing CIDMMA without any lateral expansion. The Federal interest and corresponding cost-sharing will be limited to that amount which would ordinarily be applied to an expansion of CIDMMA for dredged material purposes only. Additionally, Federal participation in the access channel, as a GNF, is based on depth in accordance with provisions of the Water Resources Development Act of 1986 (WRDA 1986), as amended. WRDA 1986 also requires an additional 10 percent contribution by the non-Federal sponsor over a period not to exceed 30 years. Accordingly, the estimated Federal cost for construction of the eastward expansion and access channel, after the 10 percent repayment, is \$13,793,000 and \$14,722,000, respectively, for a total estimated Federal share of \$28,515,000. The estimated non-Federal share is \$683,588,000 or 96 percent. This cost estimate does not include an additional estimated cost of \$1.2 billion for port facilities that the sponsor will provide. Annual operation and maintenance (O&M) costs for the recommended plan are estimated at \$218,000 annually. The O&M costs consist entirely of maintenance dredging of the access channel, which will be cost shared between Federal and non-Federal interests. The Federal Government will be responsible for 100 percent of the costs for maintaining the channel to a depth of 45-feet. The Federal and non-Federal interests will cost share equally, any additional costs beyond the 45-foot increment and up to the 50-foot increment.

Based on October 2006 prices and a Federal discount rate of 4.875 percent, the estimated average annual cost of the recommended plan is \$75,494,000, average annual benefits are \$341,348,000 and average annual net benefits are \$265,854,000. The project's benefit-to-cost ratio is 4.5 to 1.0. While the non-Federal sponsor is bearing 96 percent of the cost of the project, the Corps is the logical agent to undertake Federal authorization and construction responsibilities because of the use of navigation dredged material, the Federal interest in the channel component of the project, and Corps ownership of the current Craney Island Disposal facility. The plan also delays Federal investment in the western berm and results in Federal cost savings. Specific arrangements regarding the roles and responsibilities of the sponsor and the Corps would be developed during the Project Cooperation Agreement process.

The Office of Management and Budget advises that there is no objection to the submission of the report to Congress. A copy of its letter is enclosed. I am providing a copy of this transmittal and the OMB letter dated July 30, 2007, to the House

Subcommittees on Energy and Water Development, and Water Resources and Environment in accordance with the requirements of the Fiscal Year 2006 Energy and Water Development Appropriations Act (P.L. 109-103).

Very truly yours,

A handwritten signature in black ink that reads "John Paul Woodley, Jr." with a stylized flourish at the end.

John Paul Woodley, Jr.
Assistant Secretary of the Army
(Civil Works)

Enclosures